Financial Transactions and Reports Analysis Centre of Canada

For the Period ending March 31, 2008

Departmental Performance Report

The Honourable James Flaherty
Minister of Finance

Table of Contents

SECTION I – OVERVIEW **1**

Message from the Director **2**

Management Representation Statement **5**

Summary Information **6**

Summary of Departmental Performance **14**

Key Results for 2007-2008 by Priority **16**

SECTION II – ANALYSIS OF PROGRAM ACTIVITIES BY STRATEGIC OUTCOME **23**

Analysis by Program Activity **24**

SECTION III – SUPPLEMENTARY INFORMATION **29**

Alignment to Government of Canada Outcomes **30**

Comparison of Planned to Actual Spending (including FTEs) **30**

Voted and Statutory Items **31**

Horizontal Initiatives **31**

Response to Parliamentary Committees and External Audits **31**

Internal Audits and Evaluations **31**

Travel Policies **31**

SECTION IV – OTHER ITEMS OF INTEREST **33**

FINTRAC's Organizational Information **34**

FINTRAC's Internal Services **35**

Annex 1: Financial Statements of FINTRAC **37**

SECTION I – OVERVIEW

Message from the Director

I am pleased to present the Departmental Performance Report for the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) for 2007-2008.

During the past year, FINTRAC has worked hard to implement the legislative amendments arising from the December 2006 passage of Bill C-25, *An Act to amend the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and the Income Tax Act and to make a consequential amendment to another Act*. Bringing these new legislative initiatives on board required—and is still requiring—a sustained and substantial effort, from adjusting internal operations to handle the increased workload, to assisting reporting entities to conform to new legal provisions, to recalibrating information technology systems to accommodate new reporting requirements.

FINTRAC and its partners have expended considerable effort to date implementing C-25, and the positive effect is evident. The Centre can now provide a more comprehensive range of financial transaction information, allowing for a more valuable intelligence product. These legislative amendments permit, as well, a broader spectrum of financial intelligence recipients, with the Charities Directorate of Canada Revenue Agency, the Canada Border Services Agency and the Communications Security Establishment now authorized—under specified conditions—to receive our intelligence products.

Bill C-25 has strengthened the anti-money laundering and anti-terrorist activity financing compliance regime across Canada, with its increasingly deterrent effect on the entry of criminal money into legitimate channels of finance. In addition, with the amendments, Canada becomes compliant with virtually all the recommendations made last year by the Financial Action Task Force in its third mutual evaluation of the effectiveness of Canada's anti-money laundering/terrorist financing regime. Finally, the legislative requirement for a review, every two years, of the Centre's management of personal information holdings by the Office of the Privacy Commissioner, gives further assurance to Canadians that FINTRAC continues to uphold the highest standards in protecting the information entrusted to it.

Although the implementation of Bill C-25 required a significant commitment of resources, there was no slackening in the Centre's achievements in producing disclosures of financial intelligence. In 2007-08, FINTRAC made 210 case disclosures—compared to 193 in 2006-07 and 168 in 2005-06—to law enforcement, national security agencies, and other domestic authorized recipients, and to foreign financial intelligence units, with which it has an information sharing agreement.

In addition to its contribution of financial intelligence, FINTRAC was active in a global leadership role, especially within The Egmont Group - 108 financial intelligence units from across the world, all responsible for following the money trail in order to counter money laundering and terrorism financing. The Centre was indispensable in establishing the Egmont Secretariat in Toronto, which became operational in October 2007. The outcome

is a stronger, more effective international organisation that will bolster the Egmont Group's role in global anti-money laundering and counter-terrorism efforts.

Again in 2007-08, FINTRAC strengthened the advanced automated systems and sophisticated tools that capture, search and analyze data from millions of financial transaction reports. While experienced analysts are the first requisite in producing financial intelligence, these systems and tools are part of the endowment that makes FINTRAC's role, and its contribution, unique. Every advance that the Centre makes in improving its information technology also advances its ability to discover and follow the movements of suspicious money.

As the new Director for FINTRAC, I am pleased to present these results. In 2007-08, the Centre emerged as a mature organization, well equipped to make a strong contribution domestically and globally. I look forward to continuing the Centre's proud record of achievement and to charting its future progress.

Jeanne M. Flemming
Director

Management Representation Statement

I submit for tabling in Parliament, the 2007-2008 Departmental Performance Report for the Financial Transactions and Reports Analysis Centre of Canada.

This document has been prepared based on the reporting principles contained in *Guide for the Preparation of Part III of the 2007-2008 Estimates: Reports on Plans and Priorities and Departmental Performance Reports*:

It adheres to the specific reporting requirements outlined in the Treasury Board Secretariat guidance:

- It is based on the Centre's Strategic Outcome(s) and Program Activity Architecture that were approved by the Treasury Board;
- It presents consistent, comprehensive, balanced and reliable information;
- It provides a basis of accountability for the results achieved with the resources and authorities entrusted to it; and
- It reports finances based on approved numbers from the Estimates and the Public Accounts of Canada.

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Jeanne M. Flemming
Director

Summary Information

The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), Canada's financial intelligence unit, was created in 2000. It is an independent agency, reporting to the Minister of Finance, who is accountable to Parliament for the activities of the Centre. FINTRAC provides financial intelligence to police and intelligence agencies and other appropriate authorities, domestically and internationally, in order to support investigations and prosecutions of money laundering, terrorist activity financing and other threats to the security of Canada. FINTRAC operates at arm's length from the domestic and international organizations to which it provides intelligence.

FINTRAC's single program activity–the collection, analysis and dissemination of financial information–is an expression of its mandate. This program activity contributes directly to the government's "tackling crime" priority by detecting and deterring money laundering and the financing of terrorist activity. It also helps to create an environment in which it is more difficult for criminals to benefit financially from illicit activity.

FINTRAC's enabling legislation is the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA).

Financial Resources ($millions)

2007-2008		
Planned Spending	**Total Authorities**	**Actual Spending**
$55.4	$52.8	$51.1

Human Resources

2007-2008		
Planned	**Actual**	**Difference**
271 FTEs	319 FTEs	48 FTEs

Departmental Priorities

	2007-2008	
Status on Performance	Planned Spending ($millions)	Actual Spending ($millions)
Strategic Outcome: Financial intelligence that contributes to the detection and deterrence of money laundering and terrorist activity financing in Canada and abroad.		
Alignment with Government of Canada Outcomes: FINTRAC's program activity is aligned with three government-wide outcomes, namely: • a fair and secure marketplace–FINTRAC contributes to the security and integrity of Canada's financial system; • safe and secure communities–FINTRAC contributes by creating an environment in which it is more difficult to engage in criminal activities; and • a safe and secure world through international cooperation–FINTRAC maintains operational partnerships with foreign financial intelligence units for the purpose of information sharing to combat money laundering, terrorist activity financing and other threats to the security of Canada.		

Priority (type)	Program Activity – Expected Result	Performance Status	Planned Spending	Actual Spending
Deliver timely and high quality financial intelligence to law enforcemcat and national security agencies, and foreign financial intelligence units. (ongoing)	Financial intelligence analysis, and case disclosures that are widely accepted and used in investigations by law enforcement, CSIS and foreign financial intelligence units	Successfully met	$33.9	$31.2

Ensure compliance with the PCMLTFA. (ongoing)	Increased compliance with the law by reporting entities through continued collaboration and education, as well as through more robust detection and deterrence of non-compliance. This will be accomplished through a risk-based compliance program comprised of awareness activities, monitoring of data quality, compliance questionnaires, examinations, and by taking appropriate remedial action when non-compliance is detected.	Successfully met	$16.2	$15.0
Disseminate strategic information on money laundering and terrorist activity financing to partners, stakeholders, and the general public (ongoing)	Provide strategic intelligence, advice and analysis that enhance awareness and understanding of money laundering and terrorist activity financing and inform the development of effective Canadian and multilateral counter-strategies.	Successfully met	$5.3	$4.9

Overall Departmental Performance

FINTRAC's Operating Environment

Money laundering is the process by which money generated by criminal activities, such as the sale and distribution of illicit drugs, fraud, human smuggling and extortion, is converted into assets that cannot easily be traced back to their illegal origins. Money laundering is a global phenomenon, and the techniques used are numerous and can be very sophisticated. Technological advances in e-commerce, the global diversification of financial markets and new financial product developments provide further opportunities to launder illegal profit and obscure the money trail leading back to the underlying crime.

Terrorist activity financing is the process by which money is channelled, through a variety of means, to support the activities of terrorist organizations and networks which threaten the safety and security of Canadians at home and abroad. While terrorist groups do generate funds from criminal activities such as drug trafficking and arms smuggling, they may also obtain revenue through legal means. In addition, some charity or relief organizations may unwittingly become the conduit through which donors contribute funds that may eventually be used to commit a terrorist act. The funds are then routed to the recipient terrorist organizations through both informal networks and the formal financial system.

FINTRAC is an essential component of the community of organizations that combat organized crime and terrorism under Canada's anti-money laundering and anti-terrorist financing (AML/ATF) regime.

FINTRAC facilitates the investigation and prosecution of money laundering, terrorist activity financing and other threats to the security of Canada by receiving information on financial transactions, analyzing it, and disclosing the resulting financial intelligence to the appropriate police force or to other entities legislatively entitled to receive FINTRAC's disclosures, such as the Canadian Security Intelligence Service (CSIS), the Canada Revenue Agency (CRA), the Canada Border Services Agency (CBSA), Communications Security Establishment (CSE) and foreign financial intelligence units.

By ensuring compliance by financial institutions and other reporting entities with their obligations under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA), the Centre helps to create an effective deterrent to those who would use legitimate financial channels to launder money or to finance terrorism. In Canada, banks and other financial services businesses maintain internal compliance regimes that facilitate following the trail of financial transactions, and that law enforcement agencies can effectively pursue cases of suspected money laundering and terrorist activity financing.

Money laundering and terrorist activity financing are transnational in nature, necessitating the participation of all countries for their successful detection and

deterrence. FINTRAC's work with international bodies, such as the Egmont Group and the Financial Action Task Force (FATF), makes a strong contribution on Canada's behalf toward developing and adopting new international anti-money laundering and anti-terrorist activity financing standards. The operational links the Centre has forged with other financial intelligence units throughout the world are a vital part of Canada's contribution to the international fight against terrorism, money laundering and transnational organized crime.

Bill C-25 and the PCMLTFA

Bill C-25, which received Royal Assent on December 14, 2006, amended the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. The amended legislation and related regulations are strengthening deterrence provisions and broadening the range of information included in case disclosures to law enforcement, national security agencies, other federal departments, and foreign FIUs.

HIGHLIGHTS

The amendments to the PCMLTFA and its regulations that took effect in 2007 have resulted in the following enhancements when there are reasonable grounds to suspect that the information would be relevant to the investigation or the prosecution of a money laundering or a terrorist activity financing offence:

- allowing FINTRAC to disclose additional information to law enforcement agencies and other recipients
- authorizing the disclosure of relevant information to the Communications Security Establishment
- authorizing the disclosure of relevant information to the Charities Directorate of the Canada Revenue Agency (CRA) regarding a charity's eligibility for registration
- authorizing the disclosure to CRA of information relating to an offence of obtaining or attempting to obtain a rebate, refund or credit to which a person or entity is not entitled
- authorizing the disclosure to the Canada Border Services Agency of information relating to an offence of smuggling or attempting to smuggle goods subject to duties, or an offence related to the importation of goods that are controlled or prohibited or regulated
- enabling FINTRAC to exchange compliance-related information with its foreign counterparts
- providing for a review every two years by the Office of the Privacy Commissioner of Canada of the measures taken by FINTRAC to protect the information it receives or collects.

FINTRAC's Organizational Context

Overview

The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) is a partner in Canada's anti-money laundering and anti-terrorist activity financing regime. The Centre's main objective is to assist in the detection, prevention and deterrence of money laundering, the financing of terrorist activities and other threats to the security of Canada.

Mission

FINTRAC's mission is to provide law enforcement and intelligence agencies with high quality financial intelligence on money laundering, terrorist activity financing and other threats to the security of Canada, while protecting the personal information under its control.

Mandate

FINTRAC was created to detect, prevent and deter money laundering and the financing of terrorist activities and other threats to the security of Canada, to facilitate the investigation and prosecution of these offences by law enforcement and national security partners.

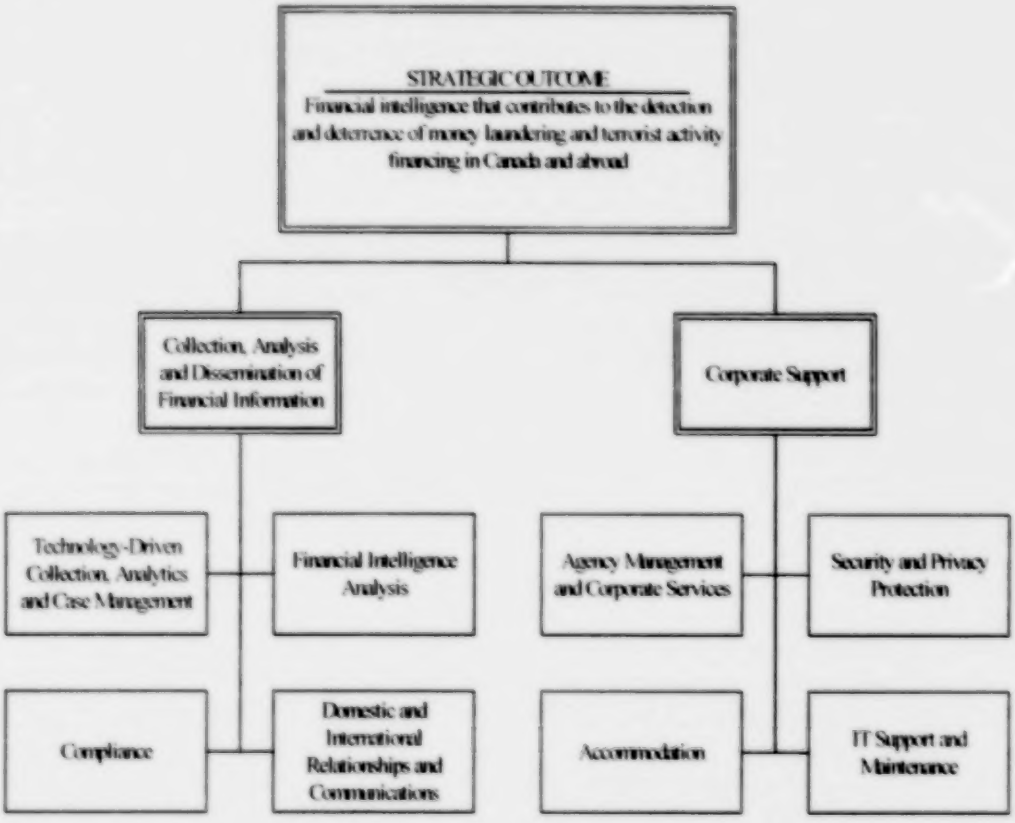
Activities

FINTRAC's activities include:

- Receiving reports on suspicious and prescribed financial transactions, and receiving and collecting information relevant to money laundering and terrorist activity financing;
- Receiving reports on the cross-border movement of large amounts of currency or monetary instruments;
- Analyzing and assessing the information it receives and collects;
- Providing domestic law enforcement with financial intelligence that it suspects would be relevant to the investigation or prosecution of money laundering and terrorist activity financing offences;
- Providing the same information to the Canada Revenue Agency (CRA), if the Centre also determines that the information is relevant to an offence of evading or attempting to evade paying federal taxes or duties imposed under an Act of Parliament administered by the Minister of National Revenue; or to CRA Charities Directorate, when it is determined that the information is relevant to a decision concerning the registration of a charity.

- Providing information to the Canada Border Services Agency (CBSA) if the Centre determines that the information is relevant to an offence of evading or attempting to evade paying taxes or duties imposed under an Act of Parliament administered by the CBSA; to determining whether a person is a person described in sections 34 to 42 of the Immigration and Refugee Protection Act or is relevant to an offence under any of sections 117 to 119, 126 or 127 of that Act; or to investigating or prosecuting an offence of smuggling or attempting to smuggle goods subject to duties or an offence related to the importation of goods that are prohibited, controlled or regulated under the Customs Act or under any other Act of Parliament.
- Providing CSIS with financial intelligence that it suspects would be relevant to threats to the security of Canada (including suspected terrorist activity financing);
- Providing the Communications Security Establishment (CSE) with financial intelligence that it suspects would be relevant to that agency's mandate;
- Providing financial intelligence to foreign financial intelligence units with which it has concluded a memorandum of understanding providing for the exchange of such information, and exchange compliance-related information with these FIUs;
- Ensuring compliance by financial institutions and other reporting entities with their obligations under the PCMLTFA and regulations;
- Ensuring that personal information under its control is protected from unauthorized disclosure;
- Providing strategic intelligence, advice and analysis that enhance awareness and understanding of money laundering and terrorist activity financing, and that inform the development of effective Canadian and multilateral counter-strategies;
- Enhancing public awareness and understanding of matters related to money laundering.

Figure 1: FINTRAC's Program Activity Architecture[1]


STRATEGIC OUTCOME
Financial intelligence that contributes to the detection and deterrence of money laundering and terrorist activity financing in Canada and abroad
Collection, Analysis and Dissemination of Financial Information
Corporate Support
Technology-Driven Collection, Analytics and Case Management
Financial Intelligence Analysis
Agency Management and Corporate Services
Security and Privacy Protection
Compliance
Domestic and International Relationships and Communications
Accommodation
IT Support and Maintenance

In compliance with the Treasury Board Secretariat's guidance, FINTRAC is using the PAA structure presented in its *2007-2008 Report on Plans and Priorities*. However, in 2007, changes were made to FINTRAC's Program Activity Architecture (PAA). These changes result from the implementation of Treasury Board Secretariat's *Management, Resources and Results Structure (MRRS) Policy*. FINTRAC's Strategic Outcome and Program Activity descriptions have not been modified. Activities that were previously identified as sub-activities are now included in the single program activity *Collection, Analysis and Dissemination of Financial Information*. The use of resources dedicated to Corporate Support, along with the results achieved for 2007-2008, are now reported in Section IV of the DPR, under "Other Items of Interest".

[1] FINTRAC's PAA was modified in 2007. For reporting purposes and in accordance with TBS' guidance, the PAA presented here is the PAA predating this change as it appears in FINTRAC's *2007-2008 Report On Plans And Priorities*

Summary of Departmental Performance

The following sections focus on the specific priorities outlined in the *2007–2008 Report on Plans and Priorities* (RPP) for the period under review.

The Year in Review

The 2007-2008 fiscal year was a period of great transition for FINTRAC. In November 2007, the first Director of FINTRAC retired after leading the Centre from its inception in 2000. In March 2008, FINTRAC welcomed its new Director.

In 2007-2008, FINTRAC also undertook the work to prepare for the coming into force of major legislative changes resulting from the December 2006 adoption of Bill C-25. FINTRAC dedicated a newly created sector to the development of these initiatives, to coordinate the efforts and the resources required to deliver these changes. This sector received the mandate to develop and prepare the implementation of the Bill C-25 initiatives, including the development of the money services businesses (MSB) registry and of the administrative monetary penalties program. It also worked to facilitate FINTRAC's activities in relation to new sectors with reporting obligations, and in relation to the expansion of reporting obligations for some of the sectors that already had reporting obligations prior to Bill C-25.

The development of the registration program for money services businesses was a major undertaking for FINTRAC in 2007-2008. The coming into force date of the requirement for all Canadian MSBs to register with FINTRAC was June 23, 2008. Through 2007-2008, FINTRAC dedicated significant resources to develop the IT solution necessary to establish the MSB registry. As well, the development of the tools necessary for a successful implementation of the registry involved most areas within the Centre, including communications (Web site interface, guidelines, and users' guides), regional operations and compliance (outreach, surveys) and policy/program development (outreach, as well as legislative and regulatory clarifications). The involvement of many stakeholders from the private sector has made the development of the MSB registry possible.

In 2007-2008, FINTRAC made 210 case disclosures of financial intelligence to law enforcement and national security agencies, and to counterpart foreign financial intelligence units. Again this year, the increasingly complex cases that were disclosed pinpointed new suspects and financial transactions, and triggered new investigations or provided significant input to ongoing investigations or prosecutions.

The number of cases disclosed to its partners remains a strong indicator of FINTRAC's ability to analyze the information it receives to identify suspected money laundering, terrorist financing or possible threats to the security of Canada. The benefit for Canadians lies in the contribution that these case disclosures make to the investigations and prosecutions of individuals and entities involved in the criminal activities targeted by the disclosures. FINTRAC's Annual Report, available at www.fintrac-canafe.gc.ca, offers

additional perspective on the contribution and benefits from FINTRAC's disclosure products, and their value to the Centre's partners.

Insight into suspicious activities depends on the availability of complete, accurate and timely financial transaction reports that are provided to FINTRAC by entities with reporting obligations. In 2007-2008, the Centre continued to strengthen its national compliance program through a wide range of initiatives. Outreach activities, including presentations and seminars, have been and continue to be, important vehicles for engaging and raising awareness among reporting entities. FINTRAC, together with national and provincial regulators, conducted an increased number of compliance examinations across all reporting sectors.

Internationally, FINTRAC continues to demonstrate its strong commitment to sustaining and broadening the cooperative ties that are so important in the global effort to fight money laundering and terrorist activity financing. This has helped establish Canada as a major player in global crime-fighting efforts, a position which was further confirmed on February 15, 2008 when the Egmont Group's Secretariat was officially inaugurated in Toronto.

FINTRAC's international role underlines its commitment to uphold and strengthen the global network to fight money laundering and terrorist activity financing. In 2007-2008, the Centre signed two more memoranda of understanding (MOU) with foreign financial intelligence units (FIUs), bringing the total number, as of March 31, 2008, to 47. The coming into force of legislative changes brought forth by Bill C-25 now allows FINTRAC to exchange compliance information with foreign FIUs and regulatory authorities, when the appropriate MOU are in place.

In 2007-2008, Canada underwent an evaluation by the Financial Action Task Force (FATF) to assess the effectiveness of its anti-money laundering and anti-terrorist financing regime in applying the FATF's 40+9 Recommendations. In this assessment, Canada's legal system, law enforcement powers, international cooperation and measures to combat terrorist financing were all rated highly. Regulatory changes that were introduced after the FATF evaluation further contribute to bringing the Canadian AML/ATF regime, and thus FINTRAC, in compliance with FATF standards.

FINTRAC continued to strengthen its strategic intelligence capacity in support of its tactical intelligence and compliance programs. In addition to sharing strategic intelligence with domestic and international partners, FINTRAC produced new feedback products aimed at reporting entities and enhanced automated solutions to assist in the production of operational statistics and management information.

The Centre's enabling legislation was developed to ensure the highest level of protection for personal information, while also making it possible for certain information to be disclosed to law enforcement and to intelligence agencies. A key provision of the PCMLTFA is the requirement for the Office of the Privacy Commissioner (OPC) to review FINTRAC's measures to protect information. In 2007-2008, the OPC initiated its

first review, conducted under the Commissioner's legislated mandate to review and report on FINTRAC's activities every two years.

In 2007, FINTRAC also completed the Treasury Board-mandated Strategic Review exercise. This exercise was aimed at identifying areas where resources can be streamlined in order to attain the best value for money.

Key Results for 2007-2008 by Priority

In FINTRAC's 2007-2008 Report on Plans and Priorities (RPP), the Centre outlined the results it hoped to achieve for its program activity, Collection, Analysis and Dissemination of Financial Information, according to its three main priorities.

PRIORITY: Deliver timely and high quality financial intelligence to law enforcement and national security agencies, and foreign financial intelligence units.	***Anticipated Result:*** Financial intelligence analysis, and case disclosures that are widely accepted and used in investigations by law enforcement, CSIS and foreign financial intelligence units. ***Successfully met:*** FINTRAC's record number of case disclosures was higher both in the number of cases, and in the complexity of networks revealed. The Centre's financial intelligence made a relevant and meaningful contribution to the fight against money laundering and terrorist activity financing.

The production and disclosure of timely and relevant financial intelligence is central to the achievement of the Centre's strategic outcome. It is of the utmost importance that tactical intelligence produced by the Centre enhances the capacity of law enforcement, national security agencies and foreign financial intelligence units to detect and deter money laundering, terrorist activity financing and other threats to the security of Canada.

Once again in 2007-2008, FINTRAC was able to produce more case disclosures than in previous years. During that period, the Centre made 210 case disclosures, of which 171 were associated with money laundering, 29 with terrorist financing and other threats to Canada's safety and security, and 10 with associations to both money laundering and terrorist financing.

FINTRAC's disclosures are assembled from a number of financial transactions. In 2007-2008, the average cases disclosed contained 323 transactions; the largest case disclosed included over 7000 transactions. These transactions are shared with law enforcement or security agencies as part of a FINTRAC case disclosure once the Centre has met the legal threshold set out in the PCMLTFA, and can serve as intelligence to help develop leads that law enforcement or agencies that investigate terrorist financing could use to further their investigations.

The legislative changes introduced by Bill C-25 have expanded the scope of the information that can be included in FINTRAC's case disclosures. This new designated information now allows the Centre to provide its partners with even more comprehensive financial intelligence that is increasingly helpful in initiating and supporting investigations.

Of the 210 disclosures, over 60 per cent were destined to the RCMP, with the others being sent to municipal and provincial police forces, foreign FIUs, as well as to CSIS, the CBSA and the CRA. The feedback received from law enforcement and other partners provides a clear indication of the impact of the Centre's financial intelligence. 84 percent of the feedback received on disclosures mentioned that the information related to persons, businesses or entities of interest to the disclosure recipient. It shows that the disclosures not only feed into investigations and prosecutions that are already underway, but also that, in 64 per cent of the feedback received, they identify completely new cases of suspected money laundering or terrorist activity financing.

Investigations often focus on a small cluster of entities or individuals, and linking these people to players in other networks is usually challenging. FINTRAC disclosures often support this aspect of its partners' work: case disclosures help identify additional persons or entities involved in criminal activities, even in cases where the disclosure feeds into an investigation already underway. In 2007-2008, new entities or individuals were identified in 84 per cent of the total number of cases that were generated by a voluntary information record (VIR) or by an MOU-authorized query from a foreign financial intelligence unit:

- 68 per cent of cases disclosed identified 1 to 5 new entities/individuals
- 21 per cent of cases disclosed identified 6 to 10 new entities/individuals
- 11 per cent of cases disclosed identified more than 11 new entities/individuals.

FINTRAC's disclosures also help law enforcement to build stronger cases and gather more convincing information on suspected criminal activities. In the fall 2007, the Centre completed a study of feedback received from law enforcement on over 120 FINTRAC disclosures. This feedback revealed that 39 per cent of FINTRAC disclosures were used by law enforcement in judicial applications to seize proceeds of crime, or in affidavits prepared for search warrants seeking evidence for ongoing investigations.

FINTRAC's automated methodology is also leading to more disclosures that identify suspicious patterns of financial transactions. The Centre has developed automated rules to search its database to identify such suspicious patterns; these patterns, in turn, lead to the development of cases and associated disclosures to law enforcement or other partners. In some instances, no other method had succeeded in identifying the subjects of these disclosures, and they had been conducting suspicious activities without being detected by law enforcement authorities. In 2007-2008, FINTRAC's work in this field had enabled five such disclosures.

FINTRAC's partners have played an indispensable role in these successes. Canadian financial institutions and other financial intermediaries are becoming increasingly effective in detecting suspicious transactions. The number of suspicious transaction reports (STRs) received by FINTRAC has increased dramatically, from 39,036 in 2006-2007 to this year's total of 50,858. STRs are used in over 74 per cent of FINTRAC's disclosures, and play a major role in the development of financial intelligence.

Domestically, FINTRAC became involved in the Canada's National Anti-Drug Strategy. The Centre's drug-related financial intelligence helps law enforcement in identifying and targeting organized crime involved in the distribution of illegal drugs.

In 2007-2008, FINTRAC made 50 case disclosures to foreign FIUs with which it has an MOU, an increase of 43 per cent from 2006-2007. In instances where information was disclosed in response to a query from one of its international counterparts, FINTRAC also sought their permission to disclose this information to relevant partners. In a world with burgeoning global economy, this type of collaboration is crucial to the effectiveness of financial intelligence units.

FINTRAC's position on the international scene continued to be an enviable one. In 2007-2008, the inauguration of the Egmont Group's permanent secretariat in Toronto has confirmed Canada's role as a leader in the transnational fight against money laundering and terrorist financing.

PRIORITY: Ensure compliance with the PCMLTFA	***Anticipated Result:*** Increased compliance with the law by reporting entities through more robust detection and deterrence of non-compliance. This will be accomplished through a risk-based compliance program comprised of awareness activities, the monitoring of data quality, compliance questionnaires, examinations, and by taking appropriate remedial action when non-compliance is detected. ***Successfully met:*** FINTRAC continued to build and refine its national compliance program. An increased number of compliance examinations were conducted in all reporting sectors. FINTRAC's compliance team also conducted a substantial number of presentations, meetings and seminars for reporting entities, industry associations, regulators and law enforcement agencies.

The quality of FINTRAC's financial intelligence is directly related to the quality and quantity of reports the Centre receives from reporting entities. As part of FINTRAC's *Collection, Analysis and Dissemination of Financial Information* program activity, the Centre's compliance program seeks to promote and facilitate compliance with the law by reporting entities and to detect and deter non-compliance. This not only has the effect of

improving the quality and quantity of reports received by FINTRAC, it also has a strong deterrent effect, as it makes it more difficult for those who would launder money or seek to raise funds for terrorist activity to carry out their activities unnoticed. In addition to the deterrent effect they provide, compliance activities can directly assist investigations and prosecutions; for example, when financial institutions request identification from clients, this information can be made available to law enforcement and to prosecutors. This additional scrutiny upfront greatly increases deterrence.

FINTRAC is enhancing its detection and deterrence capacity as a result of the passage of Bill C-25 and related regulations. These include the creation of a registration system for money services businesses, the establishment of an administrative monetary penalties regime, enhanced customer due diligence measures and the addition of new sectors with record-keeping and/or reporting obligations.

Over the past year, FINTRAC employed a number of tools and approaches in its efforts to inform reporting entities and to assist them in meeting their obligations. These efforts included:

- Conducting more than 370 presentations, meetings and seminars with existing reporting entities and associations reaching over 18,335 people;
- Providing 24 separate information sessions to reporting entities in 10 cities on the new PCMLTFA obligations, reaching more than 2,400 people;
- Responding to over 3,920 call centre enquiries from reporting entities;
- Targeted communications to industry groups directly affected by legislative changes, including guidelines and industry-specific information sheets, which were distributed to seven different business sectors.

In addition to the above, FINTRAC also modified its toll free service —already available to reporting entities —to provide them with direct and timely access to the Centre's regional compliance officers for information on questions they might have about complying with the law.

This year, FINTRAC received over 21,626,000 reports from all reporting sectors. The financial transaction reports received from reporting entities are now fully monitored for data quality, and procedures are being developed to monitor timing and volume. As a result of these enhancements, the number of reports returned for correction increased by 21 per cent.

The use of compliance questionnaires is an important tool to assess and increase compliance. This year, the Centre sent over 6,000 questionnaires to reporting entities in the real estate, money services businesses, credit unions, securities, life insurance and accounting sectors. Recent legislative amendments now make it compulsory for reporting entities to complete these questionnaires and return them to FINTRAC.

FINTRAC also sought to refine its risk model by deepening its collaboration with international partners such as Australia, the UK and the US, to share best practices in compliance, and especially, those related to risk assessment. FINTRAC also worked with Statistics Canada on a project to enhance the Centre's risk assessment model.

This year, FINTRAC performed 277 on-site examinations. FINTRAC's MOU partners -regulators in various sectors with which FINTRAC has signed an agreement for the sharing of compliance-related information- conducted a further 257 examinations, which helped to lessen the regulatory burden placed on reporting entities by limiting duplication of the examinations performed.

FINTRAC's examination process has demonstrated that the vast majority of reporting entities want to comply with their legislative obligations. In all of its examinations, FINTRAC has found only a small number of reporting entities with serious compliance deficiencies. In such cases, FINTRAC can choose to disclose non-compliance to law enforcement for investigation and prosecution. In 2007-2008, five such non-compliance disclosures were made to law enforcement. This is in contrast to the total of seven non-compliance disclosures that had been made in the three previous fiscal years.

FINTRAC's International Technical Assistance Program (ITAP) is an important component of the Centre's work to foster and support different aspects of compliance and financial intelligence analysis on the international scene. In 2007-2008, FINTRAC held pilot sessions of its new International Compliance Program (ICP) attended by six individuals from the St-Vincent and the Grenadines Anti-Money Laundering and Counter-Terrorist Financing Regime organization.

As well, FINTRAC conducted pilot sessions of its recently developed Financial Intelligence Analysis Course (FIAC), which was attended by nine individuals from financial intelligence units of St. Kitts & Nevis, St. Vincent & the Grenadines and St. Lucia. The feedback received from the participants confirmed the quality of the program and emphasized the value of the training programs in setting practices that can be adopted internationally.

PRIORITY: Disseminate strategic information on money laundering and terrorist activity financing to partners, stakeholders, and the general public.	***Anticipated Result:*** Provide strategic intelligence, advice and analysis that enhance awareness and understanding of money laundering and terrorist activity financing and inform the development of effective Canadian and multilateral counter-strategies. ***Successfully met:*** Through macro-analysis of its case disclosures and the sharing of strategic information, FINTRAC supported the work of policy-makers, domestic partners in law enforcement and national security. FINTRAC also supported Canada's commitments on the international front, with partners such as the Egmont Group and the FATF, strengthening relationships important in the global effort to fight money laundering and terrorist activity financing.

FINTRAC has a legislated mandate to enhance public awareness and understanding of matters related to money laundering, most specifically with reporting entities covered by the PCMLTFA. To raise awareness of money laundering and terrorist activity financing and help alert Canadians to the threat posed by these activities, FINTRAC undertakes a number of activities including:

- Publishing and disseminating an Annual Report to Parliament;
- Publishing articles in trade journals and newsletters;
- Publishing pamphlets and other printed material for distribution to reporting entities and their clients; and
- Operating a Web site and a call centre to provide information to reporting entities and the public.

FINTRAC's Web site was modified to comply with cross-government standards, which improved its ability to provide more streamlined, diverse and interactive materials. The site was a frequently used source of information for reporting entities and the general public.

The Web site is particularly useful for reporting entities, providing them with valuable tools and information. The Centre made several enhancements to the site's contents, such as making a series of publications available to provide feedback to specific reporting entity sectors on transaction reports submitted to the Centre. Sanitized money laundering cases were also posted to illustrate how reported data allows FINTRAC to connect suspicious money movements, thus contributing to eventual case disclosures.

In 2007-08, FINTRAC produced and disseminated a wide range of well-received strategic analysis products to its partners. Among these were "The Watch", an environmental scan focused on money laundering and terrorist activity financing issues; "Backgrounders", which present a general overview of emerging trends and typologies; and financial intelligence "Briefs" which provide a more in-depth assessment of our reports and disclosures. As in the past, "Perspectives" were also produced to offer a retrospective of the Centre's disclosures and reports, and to identify typologies and patterns of transactions in relation to a particular subject or theme.

In 2007-2008, the Centre met requests for high-level analyses from various agencies, and its employees testified before the *Commission of Inquiry into the Investigation of the Bombing of Air India Flight 182*.

FINTRAC contributed to the provision of feedback to several reporting sectors, notably by offering over 25 feedback presentations to various reporting sectors such as financial institutions, casinos, accountants, money services businesses and foreign exchange dealers, real estate, securities and life insurance. Feedback reports about the value of reporting from the real estate and securities sectors were also posted on FINTRAC's Web site to highlight how valuable the contribution made by these sectors to the anti-money laundering and anti-terrorist activity financing regime has become.

FINTRAC continued to engage with its international counterparts in various forums aimed at promoting the development and dissemination of strategic intelligence. In 2007-2008, this led to FINTRAC's contribution to various FATF typologies exercises– notably a project on Proliferation Financing, led jointly by Canada and Denmark.

In 2007-2008, FINTRAC also made progress on its mandate to disseminate information to the general public. A FINTRAC video, entitled "The Case" was produced, and was first launched at presentation sessions held for reporting entities in 2007. The video presents a FINTRAC sanitized case; using the analysis of suspicious transaction reports and information submitted by law enforcement, it focuses on how FINTRAC was able to follow the money trail, linking seven individuals and four businesses in a suspected criminal network involving 800 individual transactions worth more than $12 million.

SECTION II – ANALYSIS OF PROGRAM ACTIVITIES BY STRATEGIC OUTCOME

Analysis by Program Activity

This section outlines the results achieved by FINTRAC's program activity *Collection, Analysis and Dissemination of Financial Information*. The program activity supports the achievement of the Centre's Priorities and Strategic Outcome.

Strategic Outcome:

Financial intelligence that contributes to the detection and deterrence of money laundering and terrorist activity financing in Canada and abroad.

Financial Resources ($ millions):

Planned Spending	Authorities	Actual Spending*
$55.4	$52.8	$51.1

Human Resources:

Planned	Actual	Difference
271 FTEs	319 FTEs	48 FTEs

* Resource figures for FINTRAC's program activity Collection, Analysis and Dissemination of Financial Information include all associated corporate support costs.

Program Activity: Collection, Analysis and Dissemination of Financial Information	
Performance Measure: High quality case disclosures are produced and disseminated on a timely basis	
Performance Indicators	**Results Achieved**
Number of case disclosures	• 210 case disclosures ○ 171 were for suspected money laundering ○ 29 were for suspected terrorist activity financing and/or other threats to the security of Canada ○ 10 involved both suspected money laundering and suspected terrorist financing activity and/or threats to the security of Canada

Feedback from disclosure recipients	• 67 per cent of FINTRAC's disclosures provided information useful for intelligence purposes
	  ○ 43 per cent of the feedback received said disclosure provided a contribution to ongoing investigation
	  ○ 8 per cent triggered a new investigation
	  ○ 25 per cent contributed to a case expected to be prosecuted
	  ○ 64 per cent provided names of, or leads on, previously unknown persons or businesses/entities

Performance Measure:
Strategic information on money laundering and terrorist financing is disseminated to partners, stakeholders and the general public

Performance Indicators	Results Achieved

Number of products offered
 	
Feedback received on products disseminated
	• Three new strategic intelligence products offered in 2007-2008
	• Positive feedback from recipients on products offered:
	  ○ *Perspectives*
	  ○ *Financial Intelligence Briefs*
	  ○ *Backgrounders*
	  ○ *Money Laundering* and *Terrorist Activity Financing Watch*

Performance Measure:
High levels of compliance are attained by reporting entities in meeting their legislative obligations

Performance Indicators	Results Achieved
Percentage of reports filed within the legislated timeframe	Over 21,626,000 reports were filed with FINTRAC in 2007-2008. Of these reports, over 91 per cent were filed within the legislated timeframe. FINTRAC's new tools allowed for reports to be validated for quality upon filing. In 2007-2008, the number of reports that were returned to their originator for further action increased by 21 per cent.

Number of compliance examinations performed	In 2007-2008, FINTRAC's compliance unit performed 277 examinations of reporting entities in all sectors. 257 additional compliance examinations were conducted by regulators under their MOU with FINTRAC.
Number of non-compliance disclosures	In fiscal 2007-2008, FINTRAC determined in five cases that there were sufficient grounds to make a disclosure to law enforcement about an entity not respecting its obligations in reporting, as set out in the PCMLTFA and associated regulations. Since 2004-05, twelve such cases have been disclosed by FINTRAC to law enforcement for investigation and prosecution.
Number of outreach sessions delivered to reporting entities	FINTRAC delivered over 370 presentations, meetings and seminars with reporting entities, associations and regulators, reaching over 18,335 people. • 24 information sessions to inform specifically on new obligations related to the amendments of the PCMLTFA were delivered to reporting entities in 10 cities. • 25 feedback sessions were held specifically to highlight the contribution of reporting sectors to the AML/ATF Regime.
Performance Measure: Strong and mutually beneficial domestic and international relationships in support of strengthening detection and deterrence of money laundering and terrorist activity financing in Canada and abroad.	
Performance Indicators	**Results Achieved**
Extent and impact of FINTRAC's involvement in key national and international forums	FINTRAC continues its successful involvement in initiatives such as the Public Security and Anti-Terrorism Initiative, the Anti-Money Laundering and Anti-Terrorist Financing Regime, the National Coordinating Committee on Organized Crime, the National Integrated Interagency Information System and with other stakeholders and regulatory groups.

Extent and impact of FINTRAC's involvement in key international forums such as EGMONT Group and the Financial Action Task Force (FATF)	• The EGMONT permanent Secretariat officially opened in Toronto in February 2008. • FINTRAC continued its successful involvement in the Egmont Committee, the Egmont Group Working Groups, at the Financial Action Task Force, the Asia-Pacific Group and the Caribbean FATF. • FINTRAC held eight outreach visits to MOU partners. • FINTRAC hosted two highly successful training sessions under the auspice of its International Technical Assistance Program for 15 of participants from 4 jurisdictions.

SECTION III – SUPPLEMENTARY INFORMATION

Alignment to Government of Canada Outcomes

Strategic Outcome: Financial intelligence that contributes to the detection and deterrence of money laundering and terrorist activity financing in Canada and abroad.				
(S millions)	**Actual Spending 2007-2008**			**Alignment to Government of Canada Outcome Area**
	Budgetary	**Non-budgetary**	**Total**	
Program Activity: Collection, Analysis and Dissemination of Financial Information	51.1	0.0	51.1	FINTRAC's role as Canada's financial intelligence unit is to contribute to the creation of a more hostile environment for money laundering and terrorist activity financing in Canada. FINTRAC'S strategic outcome supports the following Government of Canada outcomes: • a fair and secure marketplace; • safe and secure communities; • a safe and secure world through international cooperation.

Comparison of Planned to Actual Spending (including FTEs)

(S millions)	**2005–2006 Actual**	**2006–2007 Actual**	**2007–2008**			
			Main Estimates	**Planned Spending**	**Total Authorities**	**Actual**
Collection, Analysis and Dissemination of Financial Information	32.8	39.8	44.9	55.4	52.8	51.1
Total	**32.8**	**39.8**	**44.9**	**55.4**	**52.8**	**51.1**
Less: Non-respendable revenue	0.0	0.0	0.0	0.0	0.0	0.0
Plus: Cost of services received without charge	1.2	1.4	1.4	1.9	1.8	1.8
Total Departmental Spending	34.0	41.2	46.3	57.3	54.6	52.9
Full-time Equivalents	180	222	271	271	324	319

Voted and Statutory Items ($ millions)

Vote or Statutory Item	Truncated Vote or Statutory Wording	2007–2008			
		Main Estimates	Planned Spending	Total Authorities	Actual
25	Operating expenditures	39.5	49.1	47.4	45.7
	Capital expenditures				
25	Grants and contributions	1.8	1.8	1.3	1.3
(S)	Contributions to employee benefit plans	3.6	4.5	4.1	4.1
	Total	**44.9**	**55.4**	**52.8**	**51.1**

Horizontal Initiatives

Supplementary information on horizontal initiatives can be found at http://www.tbs-sct.gc.ca/rma/eppi-ibdrp/hr-rh_e.asp

Response to Parliamentary Committees and External Audits

For supplementary information on the department's response to Parliamentary Committees and External Audits please visit: http://www.tbs-sct.gc.ca/dpr-rmr/2007-2008/index-eng.asp

Internal Audits and Evaluations

There were no internal audits or evaluations conducted during 2007-2008.

Travel Policies

FINTRAC follows the Treasury Board of Canada Secretariat *Travel Directive*, Rates and Allowances.

SECTION IV – OTHER ITEMS OF INTEREST

FINTRAC's Organizational Information

FINTRAC is established as an independent agency, reporting to Parliament through the Minister of Finance, who is responsible for the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA) and its accompanying regulations. The organization is funded through appropriations. The Centre is headquartered in Ottawa and has regional offices in Montreal, Toronto and Vancouver.

The **Director**, appointed by the Governor-in-Council, is the Chief Executive Officer of the Centre and has all the powers of a deputy head of a department. The Centre has separate employer status. The Director is required to report to the Minister of Finance on the exercise of those powers and the performance of duties authorized under the Act.

The **Financial Analysis & Disclosures** directorate includes all of FINTRAC's tactical financial intelligence functions for detecting money laundering and terrorist activity financing schemes.

The **Macro Analysis & Integration** directorate is responsible for FINTRAC's strategic financial intelligence mandate, including: research into trends and typologies; the articulation of the needs of each business lines for new and innovative IT solutions and the optimization of the business processes to take advantage of technological advancements; the management of horizontal initiatives of an operational nature or requiring operational input, and liaison with disclosure recipients.

The **Regional Operations and Compliance** directorate is comprised of the Compliance Unit in Ottawa and FINTRAC's three regional offices. It is responsible for ensuring compliance with the PCMLTFA, including the provision of outreach to reporting entities and conducting examinations of these entities, as well as undertaking regional outreach to law enforcement agencies and other key partners. The registry for money services businesses (MSBs) and the administrative monetary penalties (AMPs) program, once implemented, will also be part of Regional Operations and Compliance.

The **Strategic Policy and Public Affairs** sector is responsible for the management of FINTRAC's external relationships, both domestic and international, as well as the integration of Centre-wide goals and activities into articulated strategies and cohesive plans and policies. The sector also comprises the communications activities as well as the Access to Information and Privacy responsibilities.

The **Information Management/Information Technology (IM/IT)** sector is responsible for developing and applying information management and information technology methodologies that support and advance all of FINTRAC's objectives. It designs, implements, secures and supports all technology solutions to meet internal and external end-user requirements.

The **Chief Financial Officer** is responsible for the Finance and Administration activities for FINTRAC, including procurement and security.

The **Human Resources** Directorate provides services in recruitment and selection, training and development, performance management and compensation and benefits.

Legal Services are provided to the Centre by the General Counsel, two Senior Counsels and a Counsel, who are employees of the Department of Justice.

FINTRAC's Internal Services

Human Resources

2007-2008 was a demanding year in terms of workload to implement the vast legislative changes brought on by Bill C-25. This year saw recruitment efforts intensify significantly to successfully meet the challenge as FINTRAC's FTE count increased to 319.

To ensure the effective integration of new employees, FINTRAC reintroduced its Corporate Orientation Program. The Centre also continued its commitment to sound employer practices by investing in learning and development opportunities for employees and managers. FINTRAC sponsored the participation of several employees in leadership and management development programs.

Results matter and FINTRAC's performance management and rewarding excellence programs recognize the contributions of employees. By investing in its people and recognizing their contribution, FINTRAC is well-positioned for the challenges and opportunities associated with the increasing complexity and maturation of its functions, and can count on the best people to face the challenges ahead. This year, 14 individuals and 11 working groups were recognized through the *Rewarding Excellence* Program.

Privacy and Access to Information

Another very important foundation for FINTRAC as an organization is its commitment to the protection of personal information. Over the past year, the Centre has implemented Privacy Impact Assessments, collaborated on the OPC's review of its measures designed to protect information, and continued its efforts to highlight the importance of privacy and of safeguarding personal information under its control.

Business Continuity Planning

In 2007-2008, FINTRAC continued its work on the ongoing maintenance of business continuity plans (BCP) as part of the BCP Program. The Centre worked diligently on the development of an IT disaster recovery plan that will address the technical and procedural requirements to reinstate our IT systems in the event of an unplanned outage.

Administrative Services

FINTRAC worked to excel in the provision of administrative services. In 2007-2008, the Centre continued implementation of its integrated facilities plan to ensure that the Centre's facilities meet security and employee requirements and contribute to organizational effectiveness.

Annex 1: Financial Statements of

Financial Transactions and Reports Analysis Centre of Canada (FINTRAC)

Audited

For the Year Ended March 31, 2008

FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA
MANAGEMENT RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2008 and all information contained in these statements rests with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) management. These financial statements have been prepared by management in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of FINTRAC's financial transactions. Financial information submitted to the *Public Accounts of Canada* and included in the FINTRAC's *Departmental Performance Report* is consistent with these financial statements.

Management maintains a system of financial management and internal control designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are in accordance with the *Financial Administration Act*, are executed in accordance with prescribed regulations, within Parliamentary authorities, and are properly recorded to maintain accountability of Government funds. Management also seeks to ensure the objectivity and integrity of data in its financial statements by careful selection, training and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, and by communication programs aimed at ensuring that regulations, policies, standards and managerial authorities are understood throughout FINTRAC.

The financial statements of FINTRAC have been audited by KPMG LLP.

Jeanne M. Flemming
Director
FINTRAC
Ottawa, Canada

Margaret Baxter
Chief Financial Officer
FINTRAC
Ottawa, Canada

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AUDITORS' REPORT TO THE DIRECTOR OF FINTRAC

We have audited the statement of financial position of the Financial Transactions and Report Analysis Centre of Canada (FINTRAC) as at March 31, 2008 and statements of operations, equity of Canada and cash flows for the year then ended. These financial statements have been prepared to comply with the accounting policies generally applied by the Government of Canada for government departments and agencies as stipulated in Treasury Board accounting policies. The significant accounting policies are disclosed in note 2 to the financial statements. These financial statements are the responsibility of the management of FINTRAC. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects the financial position of FINTRAC as at March 31, 2008 and the results of its operations, the equity of Canada and its cash flows for the year then ended in accordance with the accounting policies as described in note 2 to the financial statements.

In our report dated September 17, 2007, we expressed a reservation of opinion on the financial statements for the year ended March 31, 2007, related to the recording of certain prepaid expenses and tangible capital asset additions as expenses of the year.

These financial statements, which have not been, and were not intended to be prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the management of FINTRAC and the Treasury Board of Canada Secretariat. The financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

KPMG LLP
Chartered Accountants, Licensed Public Accountants
Ottawa, Canada
July 22, 2008

FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA
STATEMENT OF OPERATIONS (Audited)
For the year ended March 31, 2008

(In dollars)	2008	2007 (As restated, Note 3)
TRANSFER PAYMENTS		
Egmont Group Secretariat	**$1,300,000**	-
Total Transfer Payments	**$1,300,000**	-
OPERATING EXPENSES		
Salaries and employee benefits	**32,019,815**	$24,227,064
Amortization of tangible capital assets	**3,952,774**	2,338,897
Professional and special services	**3,628,242**	2,619,624
Accommodations	**3,345,920**	2,795,981
Repairs and maintenance	**3,082,831**	2,989,222
Travel and relocation	**1,480,850**	1,427,872
Telecommunication services	**967,217**	775,969
Utilities, materials and supplies	**402,985**	408,363
Communication services	**252,077**	310,368
Machinery and equipment	**220,964**	161,644
Other expenditures	**157,110**	3,563
Total Operating Expenses	**$49,510,785**	$38,058,567
NET COST OF OPERATIONS	**$50,810,785**	$38,058,567

The accompanying notes form an integral part of these financial statements.

FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA
STATEMENT OF FINANCIAL POSITION (Audited)
At March 31, 2008

(In dollars)	**2008**	2007 (As restated Note 3)
ASSETS		
Financial assets		
Accounts receivable and advances (Note 5)	**$222,754**	$404,978
Non-financial assets		
Prepaid expenses	**839,584**	25,925
Tangible capital assets (Note 6)	**19,773,739**	17,411,167
	20,613,323	17,437,092
TOTAL ASSETS	**20,836,077**	$17,842,070
LIABILITIES AND EQUITY OF CANADA		
Liabilities		
Accounts payable and accrued liabilities	**$7,232,873**	$6,402,257
Vacation pay and compensatory leave	**1,102,347**	1,045,888
Employee severance benefits (Note 7)	**5,715,238**	4,690,581
	14,050,458	12,138,726
Equity of Canada	**6,785,619**	5,703,344
TOTAL LIABILITIES AND EQUITY OF CANADA	**$20,836,077**	$17,842,070

Contractual obligations (Note 8)
Contingent Liabilities (Note 9)

The accompanying notes form an integral part of these financial statements.

FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA
STATEMENT OF EQUITY OF CANADA (Audited)
At March 31, 2008

(In dollars)	**2008**	2007 (As restated, Note 3)
EQUITY OF CANADA, BEGINNING OF YEAR	**$5,703,344**	$5,829,218
Net cost of operations	**(50,810,785)**	(38,058,567)
Current year appropriations used (Note 4)	**51,122,424**	39,419,958
Refund of previous year expenditures	**(32,659)**	(107,216)
Refund of vacation pay and compensatory leave	**(3,529)**	-
Change in net position in the Consolidated Revenue Fund (Note 4)	**(1,012,840)**	(2,764,071)
Services received without charge from other government departments (Note 10)	**1,819,664**	1,384,022
EQUITY OF CANADA, END OF YEAR	**$6,785,619**	$5,703,344

The accompanying notes form an integral part of these financial statements.

FINANCIAL TRANSACTIONS AND REPORTS ANALYSIS CENTRE OF CANADA
STATEMENT OF CASH FLOW (Audited)
For the year ended March 31, 2008

(In dollars)	**2008**	2007 (As restated, Note 3)
OPERATING ACTIVITIES		
Net cost of operations	**$50,810,785**	$38,058,567
Non-cash items:		
Amortization of tangible capital assets (Note 6)	**(3,952,774)**	(2,338,896)
Services provided without charge by other government departments (Note 10)	**(1,819,664)**	(1,384,022)
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable and advances	**(182,224)**	333,205
Increase (decrease) in prepaid expenses	**813,659**	(44,428)
Increase in accounts payable and accrued liabilities	**(830,616)**	(3,511,713)
Increase in vacation pay and compensatory leave	**(56,459)**	(260,309)
Increase in employee severance benefits	**(1,024,657)**	(672,603)
Cash used by operating activities	**43,758,050**	30,179,801
CAPITAL INVESTMENT ACTIVITIES		
Acquisitions of tangible capital assets (Note 6)	**6,315,346**	6,368,870
FINANCING ACTIVITIES		
Net cash provided by government	**$50,073,396**	$36,548,671

The accompanying notes form an integral part of these financial statements.

1. Authority and Objectives

The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) was established through the *Proceeds of Crime (Money Laundering) Act* in July 2000 as part of the National Initiative to Combat Money Laundering. This legislation established FINTRAC as a government agency and separate employer, named in Schedule 1.1 of the *Financial Administration Act*. Originally, the key objectives for FINTRAC were the detection and deterrence of laundering of proceeds of crime. However, with the enactment of the *Anti-terrorism Act* in December 2001, FINTRAC was given additional responsibilities and government funding to detect the financing of terrorist activities. With the Royal Assent of Bill C-25- *An Act to amend the PCMLTFA and the Income Tax Act and to make a consequential amendment to another Act*, the Centre's mandate has been changed and enhanced, namely through the addition of a registry for money services businesses and the expansion of other compliance measures, as well as disclosure authorities. In 2007-08, FINTRAC's mandate was further enhanced to include the National Anti-Drug Strategy.

FINTRAC fulfills its responsibilities by collecting, analyzing, assessing financial information and, where appropriate, disclosing information relevant to the investigation and prosecution of money laundering offences and the financing of terrorist activities.

FINTRAC's strategic outcome is "*Financial Intelligence that contributes to the detection and deterrence of money laundering and terrorist activity financing in Canada and abroad*" with one program being "*Collection, Analysis and Dissemination of Financial Information*".

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

Significant accounting policies are as follows:

(a) Parliamentary appropriations

FINTRAC is financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to FINTRAC do not parallel financial reporting according to Canadian generally accepted accounting principles since appropriations are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and the Statement of Financial Position are not necessarily the same as those provided through appropriations from Parliament. Note 4 provides a high-level reconciliation between the bases of reporting.

(b) Net Cash Provided by Government

FINTRAC operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by FINTRAC is deposited to the CRF and all cash disbursements made by FINTRAC are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the Federal Government.

(c) Consolidated Revenue Fund

Change in net position in the Consolidated Revenue Fund is the difference between the net cash provided by Government and appropriations used in a year. It results from timing differences between when a transaction affects appropriations and when it is processed through the CRF.

(d) Expenses

Expenses are recorded on the accrual basis:

- Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement.
- Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment.
- Services provided without charge by other government departments for employer's contributions to the health and dental insurance plans are recorded as operating expenses at their estimated cost.

(e) Employee future benefits

i. Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multi-employer plan administered by the Government of Canada. FINTRAC's contributions to the Plan are charged to expenses in the year incurred and represent the total FINTRAC obligation to the Plan. Current legislation does not require the Centre to make contributions for any actuarial deficiencies of the Plan.

ii. Severance benefits: Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

(f) Accounts receivables and advances

Accounts receivable are stated at amounts expected to be ultimately realized; a provision is made for receivables where recovery is considered uncertain.

(g) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost of $5,000 or more are recorded at their acquisition cost. FINTRAC does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian Reserves and museum collections. Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the tangible capital asset as follows:

Asset Class	Amortization Period
Machinery and equipment	5 years
Informatics hardware	3 to 5 years
Informatics software	3 to 5 years
Other equipment, including furniture	3 to10 years
Leasehold improvements	Lesser of remaining lease term and 10 years

(h) Contingent liabilities

Contingent liabilities are potential liabilities which may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

(i) Measurement uncertainty

The preparation of these financial statements in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, the liability for employee severance benefits and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

3. Change in accounting policy

In 2007-08, the Centre made changes to its accounting policy for tangible capital assets to better reflect the significant investment by the Centre in these assets. The change is the revision in approach from capitalizing assets on a component basis to a whole asset basis. These changes have been accounted for retroactively and amounts for 2006-07 have been restated to reflect the change in policy. The retroactive adjustment increases the 2006-07 amounts for tangible capital assets by $1,744,743 and accumulated amortization increases by $41,777.

These changes have been accounted for retroactively with the following impact on the comparative figures for 2006-07:

(In dollars)	Cost		
	Opening balance as previously stated	Adjustments to Acquisitions	Revised Opening Balance
Machinery and equipment	$737,984	$123,758	$861,742
Informatics hardware	17,014,880	625,792	17,640,672
Informatics software	15,113,994	548,191	15,662,185
Other equipment, including furniture	3,435,064	369,802	3,804,866
Leasehold improvements	5,820,833	77,200	5,898,033
	$42,122,755	$1,744,743	43,867,498

(In dollars)	Accumulated Amortization		
	Opening balance as previously stated	Amortization	Revised Opening Balance
Machinery and equipment	($611,620)	($3,678)	($615,298)
Informatics hardware	(12,806,877)	(27,720)	(12,834,597)
Informatics software	(8,726,235)	-	(8,726,235)
Other equipment, including furniture	(1,879,109)	(10,379)	(1,889,488)
Leasehold improvements	(2,390,713)	-	(2,390,713)
	($26,414,554)	($41,777)	($26,456,331)

Amortization expense for the year ended March 31, 2007 has been restated to $2,338,896 (previously stated as $2,297,119)

4. Parliamentary appropriations

FINTRAC receives most of its funding through annual Parliamentary appropriations. Items recognized in the Statement of Operations and the Statement of Financial Position in one year may be funded through Parliamentary appropriations in prior, current or future years. Accordingly, FINTRAC has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

(a) Reconciliation of net cost of operations to current year appropriations used:

(in dollars)	2008	2007 (As restated, Note 3)
Net cost of operations	**$50,810,785**	$38,058,567
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Services provided without charge by other government departments (Note 10)	**(1,819,664)**	(1,384,022)
Amortization of tangible capital assets (Note 6)	**(3,952,774)**	(2,338,896)
Legal fees paid to Justice Canada	**-**	(414,437)
Refund of previous year expenditures	**32,659**	107,216
Refund of vacation pay and compensatory leave	**3,529**	-
Increase in vacation pay and compensatory leave liability	**(56,459)**	(260,309)
Increase in employee severance benefits liability	**(1,024,657)**	(672,603)
	(6,817,366)	(4,963,051)
Adjustments for items not affecting net cost of operations but affecting appropriations:		
Add (Less):		
Acquisitions of tangible capital assets (Note 6)	**6,315,346**	6,368,870
Increase (Decrease) in prepaid expenses	**813,659**	(44,428)
Current year appropriations used	**$51,122,424**	$39,419,958

(b) Appropriations provided and used:

(in dollars)	2008	2007
Appropriations provided:		
Vote 25 – Operating expenditures	**$41,312,000**	-
Vote 25a – Supplementary	**5,420,750**	-
Vote 25b - Supplementary	**238,000**	-
Vote 25 – TBS adjustments	**(729,000)**	-
Vote 30 – Operating expenditures	-	28,110,000
Vote 30a – Supplementary	-	8,990,349
Vote 15 - Transfer from Treasury Board	**311,000**	7,000
Vote 22 – Operating budget carry forward	**1,405,500**	-
Vote 23 – Pay list Requirements	**759,454**	-
Statutory amounts	**4,050,206**	3,155,680
Less: Lapsed appropriations - Operating	**(1,645,486)**	(843,071)
Current year appropriations used	**$51,122,424**	$39,419,958

c) Reconciliation of net cash provided by Government to current year appropriations used:

(in dollars)	2008	2007 (As restated, Note 3)
Net cash provided by Government	**$50,073,396**	$36,548,671
Revenue not available for spending	**32,659**	107,216
Refund of vacation pay	**3,529**	-
Change in net position in the Consolidated Revenue Fund		
Variation in accounts receivable and advances	**182,224**	(333,205)
Variation in accounts payable and accrued liabilities	**830,616**	3,511,713
Legal fees paid to Justice Canada	-	(414,437)
	1,012,840	2,764,071
Current year appropriations used	**$51,122,424**	$39,419,958

5. Accounts Receivable and Advances

(In dollars)	2008	2007
Receivables from other federal government departments and agencies	**$206,780**	$346,535
Receivables from external parties	**10,724**	52,693
Employee advances	**5,250**	5,750
	$222,754	$404,978

6. Tangible capital assets

(In dollars)	Cost			
	Opening balance (As restated, Note 3)	Acquisitions	Disposals and write-offs	Closing balance
Machinery and equipment	$861,742	$18,064	-	$879,806
Informatics hardware	17,640,672	3,467,712	-	21,108,384
Informatics software	15,662,185	1,508,557	-	17,170,742
Other equipment, including furniture	3,804,866	791,285	-	4,596,151
Leasehold improvements	5,898,033	529,728	-	6,427,761
	$43,867,498	$6,315,346	-	$50,182,844

(In dollars)	Accumulated Amortization			
	Opening balance (As restated, Note 3)	Amortization	Disposals and write-offs	Closing balance
Machinery and equipment	($615,298)	($63,061)	-	($678,359)
Informatics hardware	(12,834,597)	(1,140,929)	-	(13,975,526)
Informatics software	(8,726,235)	(1,648,389)	-	(10,374,624)
Other equipment, including furniture	(1,889,488)	(442,978)	-	(2,332,466)
Leasehold improvements	(2,390,713)	(657,417)	-	(3,048,130)
	($26,456,331)	($3,952,774)	-	($30,409,105)

(In dollars)	Net book value	
	2007 (As restated, Note 3)	**2008**
Machinery and equipment	$246,444	**$201,447**
Informatics hardware	4,806,075	**7,132,858**
Informatics software	6,935,950	**6,796,118**
Other equipment, including furniture	1,915,378	**2,263,685**
Leasehold improvements	3,507,320	**3,379,631**
	17,411,167	**$19,773,739**

Amortization expense for the year ended March 31, 2008 is $3,952,774 ($2,338,896 in 2007)

7. Employee Benefits

(a) Pension benefits:

Eligible FINTRAC employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of two per cent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to inflation.

Both the employees and the department contribute to the cost of the Plan. The 2007-08 expense amounts to $3,669,486 ($2,696,580 in 2006-07), which represents approximately 2.1 times (2.2 times in 2006-07) the contributions made by employees.

FINTRAC's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

(b) Severance benefits:

FINTRAC provides severance benefits to its employees based on eligibility, years of service and final salary as per Treasury Board policy. These severance benefits are not pre-funded. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, 2008 is as follows:

(In dollars)	**2008**	2007
Employee severance benefit liability, beginning of year	**$4,690,581**	$4,017,978
Expense for the year	**1,308,848**	922,665
Benefits paid during the year	**(284,191)**	(250,062)
Employee severance benefit liability, end of year	**$5,715,238**	$4,690,581

8. Contractual obligations

The nature of FINTRAC's activities can result in some large multi-year contracts and obligations whereby FINTRAC will be obligated to make future payments when the services are received. FINTRAC has entered into lease agreements with Public Works and Government Services Canada for office space in five locations across Canada. The minimum aggregate annual payments for future fiscal years are as follows:

(In thousands of dollars)	
2008-09	$3,697
2009-10	1,443
2010-11	980
2011-12	170
2012-13	30
	$6,320

9. Contingent Liabilities

In the normal course of its operations, FINTRAC may become involved in various legal actions. Some of these potential liabilities may become actual liabilities when one or more future events occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded on the government's consolidated financial statements. These estimated liabilities are not recognized on FINTRAC's financial statement as a liability until the amount of the liability is firmly established.

10. Related party transactions

FINTRAC is related as a result of common ownership to all Government of Canada departments, agencies, and Crown corporations. FINTRAC enters into transactions with these entities in the normal course of business and on normal trade terms. Also, during the year, FINTRAC received services which were obtained without charge from other Government departments as presented below.

(a) Services provided without charge:

During the year FINTRAC received without charge from other departments the employer's contribution to the health and dental insurance plans in the amount of $1,819,664 ($1,384,022 in 2006-07).

The Government has structured some of its administrative activities for efficiency and cost-effectiveness purposes so that one department performs these on behalf of all without charge. The costs of these services, which include payroll and cheque issuance services provided by Public Works and Government Services Canada and audit services provided by the Office of the Auditor General, are not included as an expense in FINTRAC's Statement of Operations.

(b) Payables and receivables outstanding at year-end with related parties:

(in dollars)	**2008**	2007
Accounts receivable with other government departments and agencies	**$206,780**	$346,535
Accounts payable to other government departments and agencies	**$814,922**	$644,828